DIVISIONS
ENERGY
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MINED LAND RECLAMATION
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COMMONWEALTH OF VIRGINIA

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# Request for Proposals
# For a Residential Energy Efficiency Loan Loss Reserve Program Financial Instrument

## Virginia Department of Mines, Minerals and Energy (DMME)

**Specific Authority:** These funds are authorized by the 2010 U. S. Department of Energy Grant, Funding Opportunity Number: EE-0000864, CFDA Number: 81.128, Energy Efficiency and Conservation Block Grant Program (EECBG)**.**

**Request Issued By:** Virginia Department of Mines, Minerals and Energy (DMME)

**Request Issued:** September 30, 2011

**Proposal Due:** Proposals shall not to be received at the address identified below later than 2:00 p.m. October 31, 2011. Any proposals received after 2:00 p.m. on October 31, 2011 will be rejected and returned to the submitter in their entirety and all electronic copies received and associated with late proposals will be deleted without being read. DMME reserves the right to reject any and all proposals, at any time, whenever such is in the best interest of the Commonwealth of Virginia.

**Proposal Process:** The Offeror must submit **1 original paper copy** of the proposal document with original signatures, 1 **additional copy** of the document for review purposes, **and** a complete **electronic copy** of the entire proposal and attachments, to be submitted via email.

Proposals should be mailed or hand-delivered to:

**Ron Hachey, Energy Projects Coordinator**
**Virginia Department of Mines, Minerals and Energy**
**Washington Building/8TH Floor**
**1100 Bank Street**
**Richmond, VA 23219**

Electronic copies can be emailed to:

**ron.hachey@dmme.virginia.gov**

**General Questions:** Please direct inquiries to:

**Ron Hachey, Energy Projects Coordinator**
**VA Department of Mines, Minerals and Energy**
**Washington Building/8th Floor**
**1100 Bank Street**
**Richmond, VA 23219**
**804-692-3239**
**ron.hachey@dmme.virginia.gov**

## 1. Request For Proposals (RFP)

Based on a grant award from the U.S. Department of Energy (DOE), DMME is seeking a financial institution (FI) or financial institutions (FIs) to participate in its Residential Energy Efficiency Retrofit Project (Project). This Project is being undertaken in 4 regions of Virginia. The 4 regions include Richmond, Charlottesville, Arlington and Blacksburg/Roanoke.

There are 3 Regional Energy Alliances (REAs) working in these 4 regions of the state that are under contract to facilitate this Project. The REAs are incorporated, non-profit organizations that have been formed to undertake building retrofit projects. The REAs are considered partners with the DMME for purposes of this RFP. The REA program costs are being funded by DOE, foundation grants, utility sponsorships and private funds.

We are requesting proposals from FIs to provide the following services:

1. Originate and provide Energy Efficiency Loans (EEL) to residential energy users and, possibly in the future, small commercial and/or non-profit energy users;

2. Administer a Loan Loss Reserve Fund (LLRF);

3. Provide related loan administrative services such as billing and collections; and

4. Provide quarterly reports on the LLRF to the DMME.

This RFP provides:

1. Program background - Section 2;
2. Proposed structure and terms of the loans - Section 3;
3. Proposed structure of the LLRF - Section 4;
4. Prescribed format and content for FI proposals in response to this RFP - Section 5; and
5. A description of the RFP process that will lead to selection of the FI partner(s) and execution of implementing agreements for the LLRF and for operating and marketing the LLRF - Section 6.

The proposer is asked to discuss all financial variables in its response to this RFP. For example, where this document sets out an example percentage, ratio, or dollar figure, the proposer is asked to select an appropriate figure in its response. The bulk of these issues are addressed in Section 5.4.3 and discussed in greater detail in Sections 2, 3, and 4. The proposer may also choose to submit multiple options to reconcile trade-offs in its final response to the RFP. Selection of the FI(s) will be a selection for further negotiation—that is, the DMME and the FI(s) will further refine the elements of the proposal to arrive at final agreements.

The RFP process will identify the FI(s) that can offer the lowest rates, longest terms, broadest access to finance, the greatest marketing and geographical capacity, as well as the FI(s) with sufficient assets to meet the lending demand created by the 3 REAs marketing and campaign efforts that they have developed for the 4 regions of the state that they will be working in.

The lender FI(s) will be selected for negotiations, at which time the final structure of the LLRF fund will be developed. The terms of the loans will be laid out in a Loan Loss Reserve Fund Agreement (LLRFA) between the DMME and the lender(s).

The LLRF will be expected to have the following impacts on the loan underwriting guidelines:

- *Increase size of unsecured loans.* Unsecured loan sizes between $3,000 - $20,000 are expected, potentially utilizing a fixture filing (UCC-1) on installed equipment that will assure the lender's claim will be settled on a property sale, transfer, or refinancing event. Lenders may also choose to file a deed of trust on the property being improved, but are not expected to include loan-to-value as an underwriting criterion.

- *Extend tenors.* Loan tenors are expected to be extended. For example a loan tenor of 5 years could be extended to 10 – 15 years, allowing for the monthly loan payment to closely match the energy savings.

- *Lower minimum credit score.* Credit score requirements could be as low as 600 to 650 or have no minimum, just adjusted rates. Alternative and holistic approaches to credit will be encouraged by FIs, some of whom have already demonstrated great interest in this approach. The assumption here is that although the potential borrower may have poor credit history, the willingness to improve their homes demonstrates willingness to pay and a higher personal investment in the project and the loan.

## 2. Background on the Energy Efficiency Program

2.1. The Program: The DMME, in conjunction with its partners, targets the development, financing, and implementation of energy efficiency projects in the residential sector. An essential part of the Program is to arrange financing solutions for participants, allowing them to overcome the first-cost barrier and pay for energy efficiency improvements over time, matching energy cost savings with loan payments.

The DMME is working with DOE funded technical assistance providers from the Environmental Finance Center at the University of North Carolina – Chapel Hill and the Southeast Energy Efficiency Alliance (SEEA) to develop this financing component of the Program, to evaluate and help interview potential FI partners, and to prepare the LLRF implementing agreements. As noted above, the 3 REAs are working with homeowners to design and implement energy efficiency projects that meet the requirements of the Program and the federal funding agency. Project tasks will include conducting building energy audits, developing a customized energy reduction plan for each home, assisting with rebates if applicable, lining up energy retrofit certified contractors and overseeing QA/QC services to ensure that projected energy savings are met.

The DMME will devote $500,000 from its DOE – EECBG Funds to support loans for energy efficiency projects. The partner FI(s) will provide EEL to their customers. The LLRF structure takes a "portfolio approach" to the credit structure of the EEL program. The FI(s) will be making a large number of relatively small EELs. The

LLRF will support the whole EEL portfolio and can be sized at a margin higher than the portfolio's estimated loan losses.

2.2. Target Markets & Projects. Initial target markets for the loans are residential buildings in the 4 regions of Virginia noted in Section 1 above. Eligible FI proposers need to have the capacity to serve the residential housing community.

Target buildings will be identified by energy efficiency audits coordinated by the 3 REAs in conjunction with local utilities and other partners. Marketing partnerships are being established with equipment vendors and installers, project developers, and contractors. The Program will generate a flow of EEL projects and market the selected FIs' financial products to their energy retrofit clients.

The typical sizes of single-family residential EEL projects are expected to be in the range of $3,000 to $20,000. Further description of target EEL lending amounts is provided in Section 2.4.

2.3. Energy Efficiency Equipment. Many types of energy efficiency measures may be financed.

Typical residential energy efficiency measures include, but are not limited to, the following:

1. Air duct sealing,
2. Appliance replacement,
3. Air sealing building envelope,
4. Insulation,
5. Lighting,
6. Hot water heater and piping insulation,
7. New central heating systems, and
8. Double-paned windows

A complete definition of "eligible energy efficiency projects" will be developed based on energy savings and other qualitative and economic criteria developed by the REAs in consultation with equipment suppliers, consulting engineers, and utilities. Technical studies confirming that projects meet these criteria can be shared with partner FIs as part of loan origination and appraisal.

In some cases, building owners will need to make non-energy efficiency repairs on the buildings in order to facilitate installation of the energy efficiency measures. For example, before attic insulation can be installed, it may be necessary to repair a faulty roof. Non-energy efficiency projects necessary to facilitate energy efficiency measures can be included in the loans, up to a maximum percentage of 20% at the discretion of each of the REAs, who will make the final determination on project eligibility.

2.4. Target Lending Amounts. The potential maximum lending projections are based a loss reserve fund set at 10% of the value of originated loans. With $500,000 available for the LLRF, this could have the potential to leverage loan activity of approximately $5,000,000.

Since this residential retrofit project covers 4 different geographic areas in the state, the partner FI(s) will need to be able to serve homeowners in 1 or more of the 4 service areas that are part of this project.

2.5. Roles of the Program Partners. Main and suggested roles of the several Program partners are described below. Proposer is free to suggest other/additional roles as appropriate.

The DMME will provide:

- *LLRF Funding.* Up to $500,000 will be used for credit enhancement for energy efficiency loans from the partner FI(s). The credit enhancement will be in the form of a Loan Loss Reserve Fund according to a formula to be negotiated to support energy efficiency financing. This model is being used in multiple states to support EE lending. For example, under the Michigan Saves Program (http://www.michigansaves.org ), public funds are being used to create loan loss reserve fund. Based on a 10% LLRF funding level, it is estimated that the amount budgeted for this initiative in Virginia can support $5,000,000 in EEL.

The 3 REAs will provide:

- *Program Design.* These non-profit energy efficiency organizations are responsible for program design and will assist the DMME with the initial financial structuring of the LLRF.
- *Reporting and Monitoring.* Coordinate with FI(s) to collect, prepare, and submit Program reports to the DMME for reporting required by the DOE for this grant.
- *Marketing.* Organize & conduct marketing campaigns, coordinate with other partners, conduct community-based neighborhood campaigns and help to market the FI(s)' loan products.
- *Financial incentives.* Provide financial incentives/rebates.
- *Project Vetting.* The REAs will verify that projects meet energy efficiency and other germane standards before loans can be approved.
- *Project Engineering & Development.* Coordinate delivery of engineering and project development services to interested customers. Develop and implement residential sector projects, organize audits and work with qualified energy efficiency sub-contractors to implement projects.
- *Workforce Training.* Oversee the consulting firm providing the workforce training program.

The FIs will provide:

- *Creative Collaboration in Program Design.* Develop creative options to enhance and improve Program funding products for the REA clients.
- *Energy efficiency Loans.* Offer loans according to the agreed upon range of terms and subject to the FIs' credit approval.
- *Marketing.* Originate loans and service the Program in cooperation with other Program partners. Marketing can be done through multiple channels such as mailers to current mortgage holders, business account holders, and personal account holders.
- *Customer credit pre-screening services.* Focus project development efforts with creditworthy customers to achieve high levels of access to loans for customers.
- *Loan collections and administration.* Collect loan payments and develop agreements to repossess energy efficiency equipment in the event of a loan default, subject to loan agreement terms with customers. Banks shall follow their normal collection procedures and shall outline these in their response to this RFP.
- *Reporting.* Provide information on success of loans, collection activities in default situations, and other matters subject to customer privacy policies.

There are a number of utility companies located in the 4 service areas covered by this project – some of which have energy efficiency programs/incentives and others that do not. The 3 REA Executive Directors are actively working with the utilities in their area to develop and/or expand upon utility programs that complement and enhance their residential retrofit efforts.

Therefore, the utility companies may provide:

- *Energy efficiency audits.* Utilities may provide nominal incentives toward encouraging their customers to undertake residential audits.
- *Marketing.* Some marketing and educational programs to their customer base.
- *Utility Data.* Utilities may provide utility usage data to help track and verify energy reductions.

<u>Program Implementing Agreements</u>. It is anticipated that the selected FI(s) would enter into several agreements such as:

1. First, a Loan Loss Reserve Agreement (LLRA) between the FI(s) and the DMME. Expected terms for the LLRA are discussed in Section 4.3, below.

2. Second, an Energy Efficiency Loan Program Agreement (EELPA) among the FI(s), the DMME and each of the 3 REAs, where the DMME acts as a Program Coordinator to insure the execution of the tasks noted above in Section 2.5.

FIs will use their own loan agreement forms with borrowers, which forms shall be subject to review by the DMME.

<u>Loan Marketing</u>. A common challenge to implementing EE measures is lack of financing, so the availability of the LLRF can help to overcome this barrier and motivate participation by homeowners. Loan marketing will be integrated with the overall Program marketing. In addition, the following loan marketing strategies and alliances are recommended and should be further explored and developed:

- *FI's Existing Customers*. The selected FIs will market the Program to its existing portfolio of residential customers. The FI will identify customers, make contact with them, present the Program and bring them to the REA for project development services. These customers could be pre-screened for loan eligibility.

- *Mortgage Refinancing*. There is an opportunity to piggyback EE investments with mortgage refinancing and incorporate the EE project investment into the new first mortgage principal, provided the project can be developed within the refinancing time frame.

- *Other Market Aggregators*. The Program and loan offers can be marketed to entities that reach and manage multiple properties and property owners. These deserve special sales initiative and offer the opportunity for one high-level sale to result in an aggregated set of projects.

## 3. EE Loans

The goal of the Program is to offer EELs with attractive terms, longer tenors and broader access to financing for EE projects in the 4 REA service areas. Loans for single family, residential loans will be offered under this LLRF Program. While it is anticipated that unsecured loans will be the primary form, more than one financial product may be offered for residential customers—both a secured (second or third mortgage lien) and an unsecured loan product. The following list summarizes typical terms of the loan products. These details will be finalized with the selected partner FIs. A preliminary loan product term sheet should be included in the RFP response.

- *Eligible borrowers*. Residential homeowners will be eligible to borrow under the Program. FIs should consider setting specific lending criteria that broaden access to credit for energy efficiency projects, based upon the security provided by the LLRF.

- *Eligible Projects*. All types of residential energy efficiency projects and equipment (see table in section 2.3 above) located in the 4 REA service areas. The REAs will be responsible for applying Program standards to determine whether a project is eligible. Home repairs that enable EE investments will also be considered and can equate up to 20% of the overall loan amount.

- *Loan application*. Standard loan application materials will be provided by the FIs. The REAs and other Program partners will collect information from property owners in the application process in coordination with the FI. Supplementary information may include an EE project investment plan and feasibility study specifying the intended measures to be implemented, their costs, estimated energy and cost savings, sources of financing, and a contractor plan for implementing the work.

- *Loan terms*. 5-15 year terms are planned, with a 10-year term being more typical.

- *Interest rate*. Our assumption is that interest rates will be market-based or below for the type of loan product, factoring-in the extra security offered by the LLRF. Rates will be fixed for each loan at the time of loan application approval. The FI will be asked to provide a published interest rate index as a benchmark for loan pricing.

- *Payment schedule*. Monthly payments in arrears are anticipated, with loans amortized mortgage style with level payments of interest and principal.

- *Loan size: minimum & maximum*. The DMME anticipates that there will approximately 350 residential retrofit jobs in each of the 4 service areas being covered by the REAs during this 2 year grant period. Therefore, a total of 1,400 projects over the next two years are anticipated.

It is estimated that 400 of the 1,400 projects may need loan assistance with this Program, however the actual loan uptake will depend on the attractiveness of loan terms and local demand. If the average size of the loan is $10,000, there is the potential for up to $4,000,000 in EEL activity. Milestones for lending will be agreed upon and set forth in the LLRF Agreement (LLRFA).

The actual parameters for the minimum and maximum loan size will be determined in the LLRFA between the DMME and the FI partner; however, a $3,000 minimum loan size is anticipated. The average project cost is expected to be around $10,000.

It should be noted that the 3 REAs have other energy residential retrofit projects that may have clients who will need to seek EEL assistance to complete their home improvement projects.

- *Loan underwriting guidelines and security*. These will be proposed by the FI. Both secured and unsecured loan products may be offered. For residential secured loans, second and third mortgages are expected to be required with maximum loan-to-value ratios of up to 100% anticipated. Borrower contribution, if needed, can be paid by personal contribution, program rebates/incentives, or other financial homeowner resources. A prudent portion of estimated energy cost-savings can be included in this calculation. The FI can also file a UCC-1 on the installed equipment.

- *Loan disbursement & flow of funds during project construction*. These will be developed with the FI. The simplest method is a single loan disbursement to the contractor, authorized by the borrower, following completion and acceptance of the project. Methods for construction advances for larger projects will be investigated. Multiple projects may be grouped for loan disbursement purposes.

- *Prepayment option*. The option to prepay the outstanding loans in whole without penalty will be sought. A partial prepayment option is not anticipated.

**4. Use of Loan Loss Reserve Funds**

4.1 Loan Loss Reserve Fund. The DMME has allocated $500,000 in grant funds to support the partner FIs to make EE project loans throughout the State. The LLRF is intended to enable the FIs to offer longer terms, lower interest rates, and broader access to finance. With $500,000 in LLRF funds, we anticipate that the FIs will be able to lend up to $5,000,000, based on leverage ratios of 10:1. This leverage ratio may be lower, depending on the risk assessment by the FIs respondent to this RFP. The LLRF will support the whole EEL portfolio and is intended to be sized at a margin probably higher than the portfolio's estimated loan losses.

The DMME grant funds will be deposited with the partner FIs pursuant to an LLRFA between the DMME and the FIs. The LLRFA will create three accounts: an escrow account (“Escrow Account”), a reserve account (“Reserve Account”), and an account to house funds that are retired from the Reserve Account after loans have been fully paid (“Reflow Account”), all specifically defined in the LLRFA.

The $500,000 in funds will first be allocated and placed in the Escrow Accounts at the participant FIs based on estimated regional uptake. Then, for example, on a quarterly basis (the timing of the transfer is another variable that should be determined by proposer), as the FIs makes eligible EELs, the agreed amount of funds for the loss reserve will be transferred from the Escrow Account to the Reserve Account. Once funds are transferred to the Reserve Account, they are available for the FIs to draw on in the defined event of a loss. The LLRF structure takes a “portfolio approach” to the credit structure of the EEL program. The FIs will be making a large number of relatively small EELs. The goal of the credit enhancement is to create sufficient loss reserves—from LLRF funds and the FIs’ own loss provisioning—to cover the estimated level of losses.

4.2 Risk-Sharing Formula. The risk-sharing formula will have two main parameters:

The first parameter is the ratio of the LLRF funds to the total original principal amount of loans in the EEL portfolio. For example, if this is set at 10% it will translate to a leverage ratio of 10:1.

The second parameter in the risk-sharing formula is the share of losses (or “first losses”) that the LLRF will pay. For example, if this is set at 85% and a loan with an outstanding balance of $10,000 goes into default, the FI can withdraw up to $8,500 from the LLRF. Because all losses greater than what can be covered by the LLRF are borne by the FIs, FIs incentives for good loan origination, administration, and recoveries will be maintained.

Both of these parameters are to be proposed by the FIs and will be defined in the final agreements between the lender and the DMME.

4.3 LLRF Agreement (LLRFA). To implement the finance program with the selected FIs, a LLRFA will be executed by and between the FIs and the DMME. Key terms of the LLRFA include the following:

- *Definition of the Escrow Account.* The "Escrow Account" will house the original grant funds deposited by the DMME with the partner FIs. Funds in this account, and their transfer into the Reserve Account, will be controlled by an Escrow Agreement executed by and between the FIs and the DMME.

- *Definition of the Reserve Account.* The "Reserve Account" is available to the FIs to cover legitimate principle losses due to default that are otherwise unrecoverable using the FIs' standard default recovery mechanism (see next bullet).

- *Definition of Loss & Event of Loss*. "Loss" will be defined as principle only on the loan. "Event of Loss" will be tied to the definition of loan default and acceleration under the FIs' Loan Agreement with its borrower and will occur when the FIs gives its acceleration notice to its defaulted borrower demanding all payments due under the Loan Agreement between the FIs and the borrowers. A certain number of days after this event, *e.g.*, 30 days, then the FIs can disburse funds from the Reserve Account to cover the agreed loss share, without obtaining further approval from the DMME. Any Reserve Account monies paid back to the FIs to cover loan losses may be audited by a third party at the request and expense of the DMME.

- *Interest on Accounts***.** Interest shall accrue to the DMME on all accounts. Federal regulations state that all interest accrued must be used for eligible program purposes, and this includes "topping off" the LLRF to enhance its sustainability over time.

- *Responsibility for and Distribution of Recoveries*. The FIs will be responsible for recovery actions on defaulted loans. Recovered monies, net of reasonable collections costs, will be distributed back to the Reserve Account in proportion to the FIs' share of losses.

- *Underwriting criteria*. The parties will agree in advance on underwriting guidelines for the loans. The FIs will be able to protect loans through the Reserve Account that meet the underwriting criteria. Underwriting criteria can be adjusted during the course of the Program as a mutually re-negotiated and written amendment to the LLRFA. The terms of the loans will be enumerated, including eligible borrowers, eligible projects, minimum and maximum loan size, loan tenors, etc.

- *Reporting & Monitoring*. The FIs will provide regular monthly reports on the EEL portfolio, including the number and amount of outstanding loans, payment performance, and collections, on all activities on the Escrow, Reserve, and Reflow Accounts. Information will be provided in a manner that does not identify any personal identifying information from individual borrowers. In each monthly report, the FIs will also indicate any inchoate losses or acceleration notices.

- *Availability Period*. The timeframe for adding loans to the portfolio and shifting funds from the Escrow Account to the Reserve Account will be defined and tied to the DMME grant requirements.

- *Disposition of Loan Loss Reserve Funds at end of Loan Period*. Funds will remain in the Reserve Account, the amount of which, in a fully subscribed portfolio, will be equal to the leverage ratio percentage times the amount of outstanding loans. When the amount of the loans in the Reserve Account drops below that reserve percentage, the amount in excess will be transferred to the Reflow Account for additional eligible uses under the DOE requirements. At this time, it is anticipated that funds transferred to the Reflow Account will be designated to support further EE lending, unless otherwise determined by the DMME per the LLRFA (see bullet below on *Reprogramming Funds in the Escrow Account*). Distribution of funds from the Reserve Account to the Reflow Account will occur on the same schedule as funds are transferred under the availability period determined under the above bullet (presumptively monthly or quarterly—FIs should make a recommendation on this point in their response). When the ELL portfolio is fully retired (the conditions for this eventuality will also be spelled out in the LLRFA), all re-flow Reserve Account funds will be transferred back to the Reflow Account, and, from there the future use of the funds can be redirected by the DMME in accordance with federal DOE requirements. But at this time, the DMME anticipates that the money in this Reflow Account will be on-lent for the purposes of EE energy projects. Please consider whether, upon a lower-than-expected rate of default on the portfolio, the ratios in the LLRF could be reduced.

- *Reprogramming Funds in the Escrow Account and the Reflow Account*. Funds in the Escrow Account and the Reflow Account belong to the DMME. As part of the negotiating process between the DMME and the FIs, reasonable lending targets will be established. The DMME will have the option to re-allocate the funds in the Escrow Account, if the targets are not met, to a different credit enhancement or a different FI. The Agreement will indicate the ability of the DMME to reprogram uses of these funds, as needed, to adapt to Program operating experience. Funds could be used for interest rate buy-downs and other incentives to increase marketability and uptake of loans. FIs are asked to give other creative ideas on how to use DOE grant money in ways that will support financing and Program goals. Please discuss these options, along with figures, if any, on the cost of buying down interest rates.

- *Accommodating the portfolio "ramp-up" period*. Before the portfolio builds up, a single loan loss can be a large percentage of the outstanding total loan principal. Thus, in the beginning, a larger contribution to the Reserve Account may be negotiated or an advance deposit (pre-payment) may be transferred into the reserve account to give the FIs the necessary level of risk-sharing during the portfolio ramp-up period. The FIs are asked to consider this in its response.

- **The LLRF mechanism is not a loan guarantee**; it uses the DOE grant funds to mobilize residential lending by sharing risk with the partner FIs, but it does not eliminate risk for the lender. There is no guarantor in this mechanism. The liability of the DMME is limited to only the DOE grant funding provided. The FIs are at risk for the repayment of all loan amounts in the EEL portfolio in excess of the loan loss reserves provided. Therefore, prudent lending origination and administration must be maintained. The Reserve Account must and will stay in place until the loan portfolio is retired, at which point any remaining funds will be designated to support further EE lending or another use as determined by the DMME.

- *Number of Participating FIs*. We expect to select one or more financial institutions to serve the DMME's Program, and would like to see at least one FI per REA.

- *Flexibility to Reprogram Funds*. The DMME maintains the flexibility to reprogram all funds in order to further the program goals and to enable more EE projects. The DMME will continuously evaluate the Program's success in each community and region, gauging the effectiveness of the initial designated uses of funds. The DMME will retain the ability to shift funds from one FI to another, provided the funds have not been tied directly to a loan that supports an EE project.

The LLRFA will include a provision that will allow the DMME to retain this control over all funds (the Escrow Account and Reflow Account Funds). Until funds are moved from the Escrow Account to the Reserve Account, funds in the Escrow Account can be reprogrammed by the DMME.

## 5. RFP Process

5.1. <u>RFP Schedule</u>. Ron Hachey, Energy Projects Coordinator at the DMME, is managing this project. Key steps and the schedule for the RFP process are as follows:

| | |
|---|---|
| RFP issued by the DMME | September 30, 2011 |
| Pre-bid Conference among financial institutions, representatives from the DMME, and the various other partners in the Program. This meeting is optional. | October 17, 2011 |
| Proposals due | October 31, 2011 |
| FIs selected by the DMME for negotiations | November 11, 2011 |
| Target date to complete LRF Agreement and Program Agreement | December 1, 2011 |

These dates are subject to change by the DMME. The DMME will notify all FIs that have submitted a notice of intent of any proposed changes to this RFP.

5.2. _Question and Answer Procedures and Addenda_. Questions and answers will generally be handled in writing and distributed to the responders. Any written questions shall be submitted to the DMME at the address specified for the receipt of proposals or to the following email: ron.hachey@dmme.virginia.gov. Faxed questions or inquiries will be accepted. The DMME may modify this RFP prior to the date fixed for submission of proposals by issuance of an addendum to all proposers. Addenda will be numbered consecutively, the first being A-1.

5.3. _Due Date._ Proposals will be due no later than 2:00 p.m. Eastern Time on October 31, 2011. Proposals shall be addressed and delivered to:

**Ron Hachey, Energy Projects Coordinator**
**Virginia Department of Mines, Minerals and Energy**
**Washington Building/ 8TH Floor**
**1100 Bank Street**
**Richmond, VA 23219**

The DMME is not responsible for lost or misdirected proposals. Verbal communications with the DMME staff are encouraged, but shall not be binding on the DMME and shall in no way modify this RFP or excuse proposers from the requirements set forth in the RFP. Such modifications shall only be made in writing through RFP addenda as indicated above.

An optional Pre-bid Conference will be held on October 17, 2011 at the address noted above in Section 5.3 at 10:00 a.m. Eastern Time. This conference is an opportunity for proposers to learn more about the Program and to ask questions. The DMME staff and other relevant Program Partners will be invited to attend this meeting.

The DMME's selection of FIs pursuant to this RFP process does not mean that the DMME accepts all aspects of the FIs' proposals, modifications to which may be requested and agreed to during contract negotiations. Costs for preparing proposals are entirely the responsibility of each proposer and shall not be chargeable to the DMME. If the DMME is unable to reach an agreement with the FIs originally selected, it will select the next highest-ranking respondent from the original list, without the need to go out for another RFP.

*5.4. _Form of Proposals_.*

5.4.1 *Instructions and Proposal Outline*. These instructions prescribe the formal and general content for proposals. Proposers are required to submit **electronic** copies of the following components:

1. Cover letter,
2. Proposal: addressing EEL terms, LLRF terms, credit underwriting, loan marketing and FI staffing according to the Proposal Outline described below, and
3. Term Sheets for loan products.

The DMME seeks to reduce waste in all our activities. Submittals shall be as PDF attachments to emails only.

5.4.2 *Cover Letter*. The cover letter transmitting the proposal must be executed by a responsible authorized official of the FI.

5.4.3 *Proposal Outline*. Narrative Proposals and Term Sheets must address the following points:

**Note:** This is a competitive process. Proposers are asked to be creative in their proposals, addressing and suggesting trade-offs, submitting multiple options where reasonable, suggesting ranges, etc.—all aimed at achieving the fundamental goals of the Program and the DMME.

a) *Loan Terms*. Please provide a summary description of EEL terms the FI can offer. We are interested to see the FI's ability and willingness to provide two types of loans: secured and unsecured. We are open to see the FI's willingness to consider different interest rates for different size loans or credit scores. Please provide Loan Term Sheet(s) for this purpose. (See Annex 1 for example Loan Term Sheet).

b) *LLRF Terms*. Please respond to the proposed LLRF structure and terms, including FI's proposed LLRF risk-sharing formula. Please identify and discuss briefly the FI's position on key points in the LLRFA, working off the terms described in Section 4.3, above, including:

- Parameters of the risk-sharing formula,
- Separation and definitions of the Escrow and Reserve Accounts,
- Definition of Loss and Event of Loss,
- Disposition of funds at the end of the loan period,
- the DMME Program fees,
- Portfolio ramp-up period, and
- Reprogramming of funds in the Escrow Account and ideas for alternative uses of these funds to promote the loans.

c) *Approach to Credit and Underwriting Guidelines*. Please provide a brief summary description of the FI's approach to: (i) credit analysis of borrowers, (ii) underwriting guidelines and criteria for the energy efficiency loan program, and (iii) credit screening. Please address the Program goal of broadening access to finance and how the LLRF can support this goal.

d) *Loan marketing, origination, and administration*. Please provide a brief description of the FI's approach to loan marketing, working jointly with the DMME and other Program Partners. If available, please provide supporting documents such (i) a form Loan Application, (ii) a Loan Origination Procedures Checklist.

e) *Qualifications & Experience, Officers and Staffing*. Briefly summarize your institution's qualifications and experience to undertake this Program. Please indicate names of officers who will play the following roles including:

- Program Manager, headquarters, lead loan officer responsible for this Program who will provide the lead and primary point of contact for loan origination;
- Senior FI Officer(s), who will negotiate and execute documents on behalf of the FI, be available if and as needed to discuss policy matters, and provide program leadership;
- If applicable, other staff, e.g., legal counsel, risk manager, assistants to the Program Manager within headquarters; and
- If available, indicate the number of branch officers who will be responsible for local loan origination.

f) *Technical Assistance & Training Needs*. If applicable, please describe the FI's ideas, needs, and priorities for technical assistance and training. These needs can be discussed with the DMME and its Partners for possible technical assistance support.

g) *Additional Statements and Materials*. Please feel free to add additional statements, ideas, and materials that demonstrate the FI understanding of the Program goals and how the FI could implement the Program.

5.4.4 *Selection Process & Steps to Complete Agreements*.

a) *Evaluation*. Proposals will be reviewed by the DMME staff for completeness and scored and ranked by the DMME staff and their Program Partners.

b) *Evaluation Criteria*.

The DMME staff will evaluate proposals qualitatively according to the following criteria:

- Attractiveness of the proposed loan terms, including cost to the consumer, tenor, security requirements, prepayment options, etc.;
- Response to proposed loan loss reserve terms and ability to utilize this to meet the Program objectives and the objectives of the DOE;
- Clarity and suitability of proposed loan underwriting criteria and ability to meet the Program goal to broaden access to credit;
- Simplicity and ease of administration of underwriting criteria and loan origination procedures and coordination with Program Partners;
- Skills of staff, services, and level of effort the FI will provide to make this Program successful. Numbers of current bank customers (commercial and residential), current numbers of mortgages and building loans/home improvement loans; and
- Additional statements, ideas and materials that demonstrate the FI's understanding of the Program goals and how the FI could implement the Program.

An evaluation worksheet is attached. The DMME will select one or more FIs with which to proceed to negotiations. Please note: selection of the FIs will be a selection for negotiation—that is, the DMME and the FI will further refine the elements of the proposal to arrive at final agreements. If the DMME is unable to reach an agreement with the FIs originally selected, it will select the next highest-ranking respondent from the original list, without the need to go out for another RFP.

5.4.5 Steps to Complete the LLRFA. Following selection of the FIs with which to negotiate, the DMME proposes to proceed to negotiate the LLRFA. The DMME will provide the form of this agreement to start. Annexes to the LLRFA will include: (a) Loan Application Form; (b) Loan Origination Procedures Checklist, and (c) form Loan Agreement, among others. All terms of the term sheets and proposed agreements are subject to negotiation and change.

5.4.6 Steps to Complete the FI, the DMME, and Non-Profit Program Agreement. Following selection of the FI with which to negotiate, the DMME will also prepare a draft Program Agreement for review and discussion with the FI.

**RFP Annexes**

Annex A – Draft Term Sheet for Residential Energy Efficiency Loans
Annex B - Proposal Evaluation Scoring Sheet

## Annex A:
## Draft Term Sheet for Residential Energy Efficiency Loans

**Term Sheet Template**

**Instructions:** Lenders should use this template to present the details of the EE products they are willing to offer as part of this program. Lenders may propose as many different products as they wish and may make modifications in the format of the term sheet to more clearly present their products as long as requested information is shown. For example: a separate table that shows loan terms for different FICO scores. Lenders are encouraged to be creative.

| **Parameters** | **Description** | **Additional Notes to Proposers** |
|---|---|---|
| Product Title | | Short title that describes the particular product the lender is willing to offer |
| Eligible Loan Amount | $3,000 to $20,000 | Modify as necessary |
| Term(s) | | Propose terms: DMME anticipates proposals with as long terms as possible up to 15 years for some products |
| Collateral | | Modify as necessary. |
| Interest Rate | | If interest rates DMME will vary significantly for different terms or different credit worthiness factors (FICO scores) specify likely interest rates for different terms |
| Payments | | Method of calculating payments |
| Debt Ratio | | Complete if this will be part of underwriting requirements |
| Min. Credit Score | | Propose credit score requirements: DMME anticipates proposals willing to cover range of credit scores and that interest rates may vary for different FICO scores (clearly show impact FICO scores will have on interest rates). |
| Other underwriting criteria (describe) | | specify if applicable |
| Other underwriting criteria (describe) | | specify if applicable |
| Other underwriting criteria (describe) | | specify if applicable |
| Origination Fee | | specify if applicable |
| Percentage of Eligible Losses Covered by LLR until cap is reached | | Propose percentage: DMME anticipates proposals in the range of 60 to 90 Percent |
| Loan Loss Reserve Cap (% of outstanding loan principle) | | DMME anticipates proposals in the range of 5 to 10 percent |

REQUEST for PROPOSALS for FINANCIAL INSTITUTION SERVICES

**Annex B:**
**Proposal Evaluation Scoring Sheet**

**Energy Efficiency LLRF Program**
**Financial Institution Request For Proposal: Proposer Evaluation Worksheet**

| | Criteria | Point Value | Grade (0-100%) | Score |
|---|---|---|---|---|
| | **FI Qualifications & Experience** | **10** | | |
| 1 | FI proposer experience & qualifications | 5 | | |
| 2 | Skills of staff and proposed level of effort | 5 | | |
| | **Energy Efficiency Loan Terms & Underwriting** | **30** | | |
| 3 | Interest rate & fee pricing | 10 | | |
| 4 | Loan tenors | 10 | | |
| 5 | Underwriting guidelines and security requirements | 10 | | |
| | **Approach to Loan Loss Reserve Fund** | **25** | | |
| 6 | Proposed risk-sharing formula | 10 | | |
| 7 | Response on other LLRF Agreement terms | 5 | | |
| 8 | Broadening access to finance: ability to achieve | 10 | | |
| | **Approach to the Program & Marketing** | **30** | | |
| 9 | Loan marketing | 10 | | |
| 10 | Number of accounts/members | 15 | | |
| 11 | Loan origination procedures | 5 | | |
| | **Other** | **5** | | |
| 12 | Match of FI's proposal with Program goals: | 5 | | |
| | Total Points | 100 | | |

**Evaluator Name & Date:** ____________________________________________

**Financial Institution Name:** ________________________________________

**Contact Name(s):** ________________________________________________